

MINUTES
ECONOMIC POLICY COUNCIL

September 4, 1985
10:30 a.m.
Roosevelt Room

Attendees: The Vice President, Messrs. Baker, Block, Baldrige, Brock, Yeutter, McFarlane, Sprinkel, Wright, Darman, Kingon, Oglesby, Friedersdorf, Speakes, McAllister, Armacost, Driggs, Keel, Khedouri, Low, Mulford, Robinson, Smart and Stucky, Ms. Dole and Ms. Constable.

1. Moving Social Security Off-Budget

Secretary Baker stated that Congressman Roybal has scheduled hearings for September 9 regarding moving social security off-budget before the scheduled 1993 date. An Administration position is needed because OMB and HHS have been asked to testify.

Mr. Wright stated that moving social security off-budget -- old age and survivors insurance and disability insurance -- would increase the budget deficit by \$63.5 billion by 1990, and that if medical insurance is included, the deficit would increase by \$77 billion. He noted that these are accounting deficits and would not increase the Federal Government's borrowing requirements. Mr. Darman cautioned that increasing the budget deficit by that amount would jeopardize the Administration's efforts to reform the tax code.

The Council discussed the implications of the President's earlier statement that social security should be moved off-budget. Secretary Baker pointed out that the President did not specify when social security should be moved off-budget nor did he offer legislation to do so.

Decision

The Council agreed that the Administration should not testify in support of a specific legislative proposal or date to accelerate the scheduled separation of social security from the united budget. Administration witnesses should indicate that we will study the issue.

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2. Trade Policy Strategy

Mr. Baker stated that the Council had three remaining trade policy issues to address:

1. Should the U.S. host a high level meeting of the major industrial countries to review the issues in implementing the findings of the G-10 monetary studies or continue to rely on the Interim Committee as the forum for following up on the G-10 studies?
2. Should the U.S. seek to ease the debt burden of those countries carrying out successful adjustment in accordance with the IMF so as to increase their ability to increase imports?
3. How does the Administration enunciate our trade policy?

Mr. Mulford noted that the issue with regard to international monetary reform is whether to maintain our current position of offering to consider the value of hosting a high level meeting to build upon the G-10 monetary studies or pursue a more concerted effort at reform. Secretary Baldrige stated that the issue is more than a conflict between the U.S. and France and goes to the question of the strong dollar, the trade deficit and protectionist legislation in Congress. He stated that addressing the problem of the high value of the dollar should be a part of the Administration's trade strategy. Mr. Sprinkel expressed caution about pursuing such a course, and stated that the current position, as articulated by Secretary Baker at the OECD meetings in Paris, of offering to consider the value of hosting a high-level conference to build was the best approach. The Council agreed with that formulation.

Secretary Baker questioned the value of including in the policy paper a statement that the Administration would seek to ease the debt burden of countries following IMF adjustment policies. The Council's discussion focused on the importance of stressing that developing countries improve their economic growth, rather than offering to ease their debt burden.

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The Council, in reviewing the best means of launching the President's trade strategy, discussed the merits of a presidential speech and a bipartisan conference. An argument advanced on behalf of a televised presidential speech was that only the President could quell the protectionist pressures building in Congress. Several Council members questioned whether a presidential address would have a lasting effect upon Congress, arguing that it might be setting the President up for a loss. Secretary Baker noted that televised addresses are more effective when the President is asking for support of a particular bill or position, rather than a general policy approach.

Mr. McFarlane suggested establishing a bi-partisan commission to draw Congress into a joint effort to address the trade problem. Such a commission might also give the Administration the time necessary to hold off protectionist legislation that it appears Congress will enact soon.

The Council's discussion focused on how such a commission might be established and what it could accomplish. Several members expressed some skepticism that Democrat members of Congress would be willing to establish such a commission and take the political pressure generated by protectionist legislation off the Administration. Mr. Darman stated that the National Commission on Social Security Reform, was a similar effort to develop a bipartisan approach to solving a problem. He noted however that the social security commission was attempting to develop legislation; the trade policy committee would be attempting to resist legislation.

Ambassador Yeutter suggested that a strong omnibus trade legislation proposal by the Administration might be another approach to capturing the initiative on trade with Congress.

Decision

Secretary Baker asked that a small working group develop an outline of how a bi-partisan trade commission might be established, its membership, charter and timing.